like the United States, Japan has never been a "checkbook" society.

To make the system viable and effectively competitive with the largest of the nation's retailers and supermarkets, Mitsubishi will have to consolidate its present domestic distribution system even further. Excluding the ocean transport sector, the company presently makes use of an estimated 700 distribution firms throughout Japan. These include primarily truckers and warehouses. Top management has called for a reduction of this number to perhaps 100, to gain economies of scale and assist with the promotion of the new system.

Mitsubishi expresses confidence about this new direction it is taking. "Our strong point is that we deal with many different commodities and are able to acquire a wide variety of information because of our overseas contacts," notes Hiroshi Miura of Mitsubishi. "Consequently, we are in a unique position to help develop new commodities that appeal to our customers both here in Japan and overseas."

Fears Being Realized

However, beyond the question of "new" market opportunities, there are many who feel that this renewed interest by the "sogo shosha" with the whole domestic distribution question is due to their fear over further inroads by other entities. Department stores and supermarkets, traditional customers of the "shosha," have begun to branch out into many new product lines. At the same time, they have begun to contact overseas and domestic producers directly, especially where large and predictable volumes of cargo are involved. And this strikes at the heart of the success of trading houses in years past.

Efforts by large retailers—including department stores and supermarkets—to expand their holdings have given them increased market power. Of Japan's estimated 1.6 million retailers, for instance, less than 1 percent are large stores having over 500 square meters of sales space. Still, this 1 percent of stores accounts for about 30 percent of all retail sales and nearly one-third of total shopping space.

Adding to this, the market share of these large enterprises has grown appreciably, more than doubling since the mid-1960's. And during this same period, the sales volume of these firms has grown almost tenfold—nearly twice as fast as retail sales as a whole. ☆

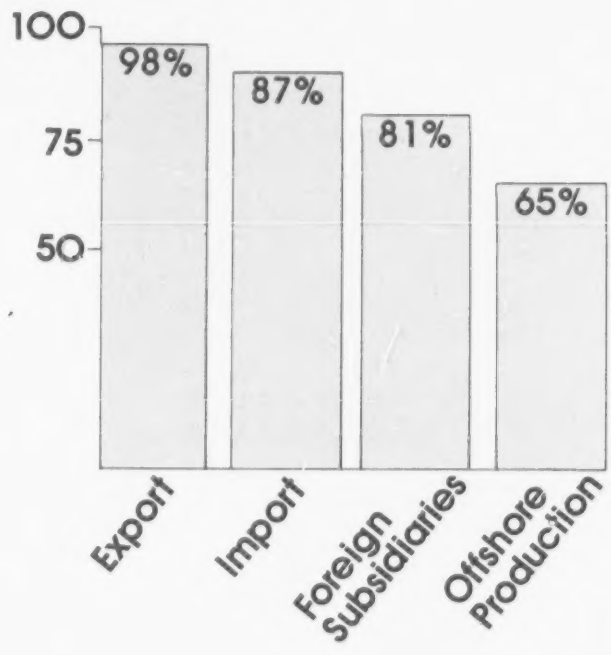
TRADING COMPANY PERFORMANCE

		Sales (millions)	Current profit (millions)	Net income (millions)
Mitsubishi				
March	1981	¥14,686,564	¥46,167	¥21,131
September	1982 (6)	7,373,615	18,395	10,476
March	1983	14,885,454	42,902	18,230
September	1983 (6)	7,189,659	19,862	9,538
March	1984 (E)	14,800,000	43,000	18,000
March	1985 (E)	15,400,000	45,000	20,000
Mitsui				
March	1982	13,225,000	35,257	15,125
September	1982 (6)	7,096,229	33,640	6,988
March	1983	14,147,368	62,193	10,344
September	1983 (6)	6,797,891	13,707	5,063
March	1984 (E)	13,900,000	29,000	10,000
March	1985 (E)	14,600,000	40,000	13,500
C. Itoh				
March	1982	12,335,652	13,675	5,014
September	1982 (6)	6,092,701	13,813	1,517
March	1983	12,490,220	33,806	3,075
September	1983 (6)	6,318,004	12,434	1,530
March	1984 (E)	12,800,000	25,000	3,000
March	1985 (E)	13,400,000	25,000	4,500
Marubeni				
March	1982	11,547,466	23,836	5,276
September	1982 (6)	5,938,908	10,064	3,067
March	1983	11,631,385	23,214	346
September	1983 (6)	5,696,452	9,699	2,656
March	1984 (E)	12,000,000	21,000	6,000
March	1985 (E)	12,500,000	25,000	9,500
Sumitomo				
March	1982	10,964,358	44,183	15,573
September	1982 (6)	5,673,472	22,357	8,351
March	1983	11,353,908	44,558	17,188
September	1983 (6)	5,681,714	20,550	8,510
March	1984 (E)	11,400,000	41,000	17,000
March	1985 (E)	12,000,000	45,000	19,000
Nissho-Iwai				
March	1982	7,432,169	11,518	5,621
September	1982 (6)	3,970,480	5,020	2,517
March	1983	8,016,878	13,108	7,954
September	1983 (6)	3,615,284	6,265	2,748
March	1984 (E)	7,750,000	13,300	7,000
March	1985 (E)	8,800,000	14,000	8,000
Tomen				
March	1982	3,715,126	3,905	1,853
September	1982 (6)	1,991,590	1,347	874
March	1983	3,916,050	4,049	1,915
September	1983 (6)	1,945,183	1,947	975
March	1984 (E)	4,100,000	4,500	2,300
March	1985 (E)	4,500,000	5,000	2,500
Kanematsu				
March	1982	¥3,268,006	¥265	¥116
September	1982 (6)	1,655,903	76	101
March	1983	3,450,789	976	118
September	1983 (6)	1,725,601	117	104
March	1984 (E)	3,600,000	1,000	150
March	1985 (E)	3,900,000	1,500	300
Nichimen				
March	1982	2,937,837	6,168	1,628
September	1982 (6)	1,625,132	1,952	710
March	1983	3,258,833	5,666	1,381
September	1983 (6)	1,641,892	1,846	718
March	1984 (E)	3,400,000	5,500	1,400
March	1985 (E)	3,700,000	5,700	1,500

Source: Company reports and IBI forecasts.

MORE TRENDS IN INTERNATIONAL DISTRIBUTION

Are international distribution managers being saddled with greater global burdens, or offered increased opportunities to shine? Our second survey shows it depends on how they look at the worldwide bottle.



Nearly all major firms are engaged in some form of international exporting, with 98 percent reporting activity in this area. Involvement in importing is also high, and has been encouraged by the rise in the value of the dollar. Growth in the use of foreign subsidiaries has also expanded, with 81 percent of the firms reporting this type of involvement. That's up from 77 percent a year ago. Offshore production has also expanded, from a 55 percent level in 1983 to 65 percent this year. Again, this is because of higher profits from overseas operations, and the lower costs of offshore assembly.

Since World War II, international trade has drawn countries closer together, and formed the basis for much of their economic life. Unfortunately, not every country has been pulling its weight equally.

Among the community of trading nations, which includes over 135 countries, only 15 can claim a balance in their exports and imports. And only five can point to a surplus.

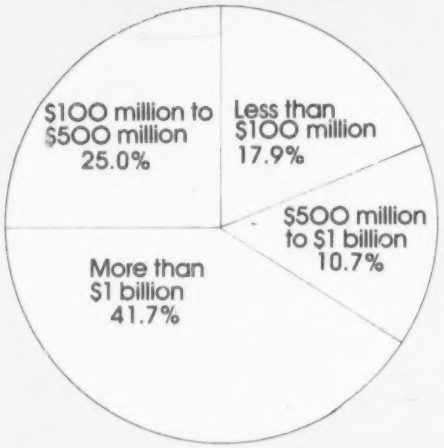
The preponderance of nations continually run up deficits and then look to the World Bank, United Nations, or foreign banks to help them finance their shortfalls. Some nations, such as Brazil, Mexico and Argentina, are cash-poor, and must use their natural resources of oil, coffee or sugar cane as currency in barter deals with trading partners.

Adding to these countries' financial dilemmas are the high interest rates that currently prevail in the

continued

This article was prepared by Dr. Richard Lancioni, professor of marketing and logistics at Temple University in Philadelphia, and Martin Christopher of the Cranfield School of Management. Dr. Lancioni is currently DISTRIBUTION Magazine's professor-in-residence. Research for this article was done through the resources of Logistics International, a consulting firm specializing in international distribution. Dr. Lancioni is U.S. director of the firm.

What Are Your Annual Corporate Sales?

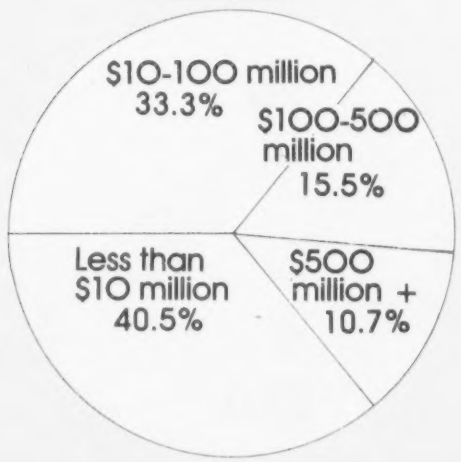


Responses to this question again reflect the fact that international trade and distribution is for the most part carried out by large firms. But the number of small companies getting involved is also expanding. In the 1983 survey, only 9 percent of the firms with less than $100 million in sales were involved with international trade and distribution. This year, the figure swelled to 17 percent. The U.S. is becoming a major factor in world trade, and small firms have been encouraged by federal legislation which created tax exemptions for firms setting up Foreign Sales Corporations. Despite the growth of smaller firms in terms of total volume, over 50 percent of the foreign exporting is still done by fewer than 1,000 companies, with 85 percent of this accounted for by the larger firms.

What Is The Value Of Your Company's Exports and Imports?

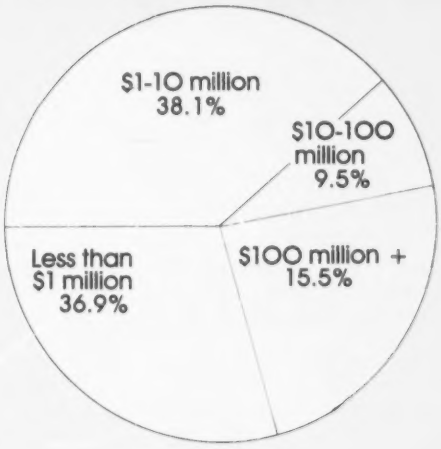
EXPORTS

IMPORTS



The export and import activity of the survey respondents varied widely. Small exporters with foreign sales under $10 million comprised 28.6 percent of the respondents. Very large exporters with annual foreign sales of over $500 million comprised only 8.3 percent. The majority of the respondents were in the middle, with the largest group (39.3 percent) reporting exports between $10 million and $100 million. Importers fell into similar groups.

What Is Your Annual Freight Bill For Exports?



The average freight bill for firms responding to our survey was $5.5 million—approximately 15 percent of total export sales. This is higher than the 1983 study, which pegged the average freight bill at $4 million. The change is somewhat modest, but it does reflect the upward trend in international trade by U.S. firms. Also, the freight bill should be used only as an international guideline. It does not reveal the true cost of international distribution because: 1) the value of the products shipped, and thus their rate levels, ranged from high-value products such as semi-conductors and electronics to low-value items such as fertilizers and chemicals; 2) the freight charges for foreign subsidiaries are not included; and 3) the terms of sale for a large portion of the exports was f.o.b. at some domestic point, and the cost of moving the goods was not considered an expense by these companies.

TRENDS

United States. These have pushed the value of the dollar to an all-time high against other currencies, and forced foreign investors to put their money in U.S. firms, instead of investing in developments based in their own countries.

The dollar's growing strength hasn't been all good for U.S. companies, though, either. Since September 1983, the pound sterling has dropped 28 percent against the dollar, the French franc 40 percent, the German mark 22 percent, and the Japanese yen 31 percent. This has made foreign goods less expensive in the U.S. while at the same time raising the prices of U.S. products being sold abroad. The result has been an unusually large increase in the U.S. trade deficit, which will reach more than $110 billion by the end of the year.

The swelling deficit's impact on the international distribution patterns of U.S. companies has been dramatic. Exports of U.S goods to foreign customers have slowed, while at the same time the development of U.S. foreign subsidiaries has accelerated. And over the years, these subsidiaries have often proven to be more profitable than U.S. domestic-based operations. Indeed, Ford Motor Co. has found over the years that its British subsidiary has been a significant contributor to the firm's profits.

The stronger dollar has exerted a tempering effect on inflation levels over the last year and a half. Less expensive foreign products are only part of the reason for the inflationary ebbing we have seen during that period. Oil prices have also remained constant or even declined in some cases, because of the Iran-Iraq war and a general glut of crude oil reserves in the world market.

But the influx of cheaper products and raw materials has created havoc in some U.S. industries, such as the steel industry. Numerous mills around the country have been closed and domestic production has been reduced in the face of cheaper foreign competition. Many U.S. steel firms are seeking import quotas to limit foreign steel imports, and protectionist legislation in the form of domestic content legislation. In addition, the lower-priced foreign material and labor has resulted in the auto industry going offshore to arrange for the assembly of some of its components such as engines, transmissions, etc.

Second Sailing

All of these trends detailed above have exerted either negative or positive impacts on international distribution patterns. To help chart the current course of worldwide distribution, *DISTRIBUTION* recently conducted its second annual "Trends in International Distribution" survey.

In its survey, *DISTRIBUTION* surveyed more than 126 of the leading firms involved in international business. The list used to conduct the survey was taken from the membership roster of the National Council of Physical Distribution (NCPDM).

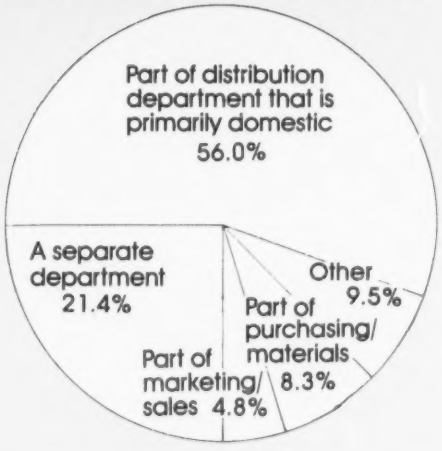
Our survey asked respondents to address these questions:

- **How is the international distribution function organized in your firm?**
- **At what managerial level is international distribution handled?**
- **What is the value of your annual export and import sales?**
- **Who handles import and export procedures?**
- **What terms of sale are used for import and export transactions?**
- **How many people does your firm employ in international distribution functions?**
- **What are the specific duties and responsibilities for distribution departments involved with various types of international activities?**
- **Are international distribution patterns for your company changing, and if so, what forces are causing the change?**

Our survey participants made it clear through their responses that the role of international distribution is becoming a more important one all the time. The charts that ap-

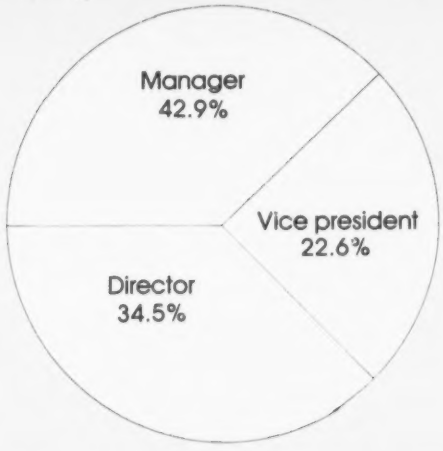
continued

How Is The International Distribution Function Organized At Your Company?


Part of distribution department that is primarily domestic 56.0%
A separate department 21.4%
Other 9.5%
Part of purchasing/ materials 8.3%
Part of marketing/ sales 4.8%

More than half the international distribution departments surveyed are part of their firms' domestic operations. Only 21 percent have separate international distribution activities. Again, while there has been growth in international trade and distribution in the last year, the amount of organizational involvement and commitment has been minimal. Many distribution executives still think foreign customers can be treated in the same manner as domestic ones. In some of the firms surveyed, while the company had significant international distribution operations, it had no formal group handling the activity, and reported to either a marketing or manufacturing manager.

What Is The Management Level Of Highest Ranking Person Involved With International Distribution?



Here we find more support for our earlier findings that little attention is being paid to international distribution decisions at the highest corporate levels. More than 40 percent of the decisions are made by managers, and 22 percent by vice presidents or above. This indicates that international distribution decisions are considered by most companies to be more suitable to the operational level than to a strategic plateau. As one vice president commented about his involvement in international distribution decision-making, "I leave most of these decisions to my subordinates."

TRENDS

pear throughout this report provide data for their responses to specific questions. Using that data, we can then draw the following general conclusions about the current roles of international distribution:

- **Distribution departments have little involvement with international business matters, yet are frequently asked to handle international distribution problems without the provision of any additional staff.**
- **There is generally a need for integration of distribution into the planning for all aspects of international business. Frequently, problems in international distribution are solved using a "band-aid" approach, and little long-range planning is utilized.**
- **International distribution will continue to become more important in the future, and the firm that begins to devote more time and effort to this area will be the eventual leader among its competitors.**

Once the survey responses were tabulated, we then conducted personal interviews with selected respondents, to gain more in-depth insight into their companies' international distribution makeup.

Managers contacted personally were first asked to describe the major forces currently influencing their companies' international business plans and strategies. The factors they cited included:

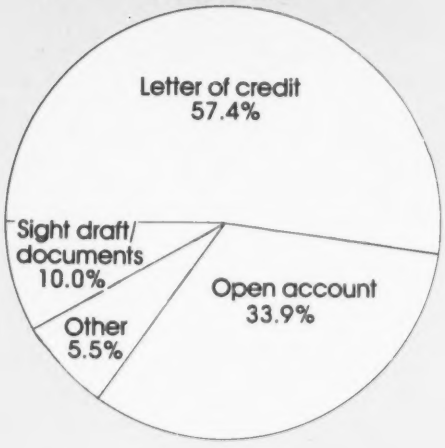
- **the continued high value of the dollar, and its dampening effect on foreign sales of U.S. products;**
- **the changing tax laws that dictate how American business can do business overseas;**
- **the Shipping Act of 1984, and the freedom it gives shippers in dealing with ocean carriers for better rates;**
- **the poor financial structure of many of the third-world countries, and their inability to pay in U.S. dollars;**
- **the continued pressure from foreign countries to invest in their countries and do business there.**

Our second question in the personal interviews asked, "What have been, or will be, the strategic reactions of your company to the developments in international distribution?" The general conclusions given here included:

- **More joint ventures are needed to eliminate the risk in international business and break down the barriers imposed by foreign nations.**
- **Improved use of computers will help integrate all of the information needed to keep track of developments and orders in international distribution. Many firms see a need for this not only at the shipper's location, but also in third-party lo-**

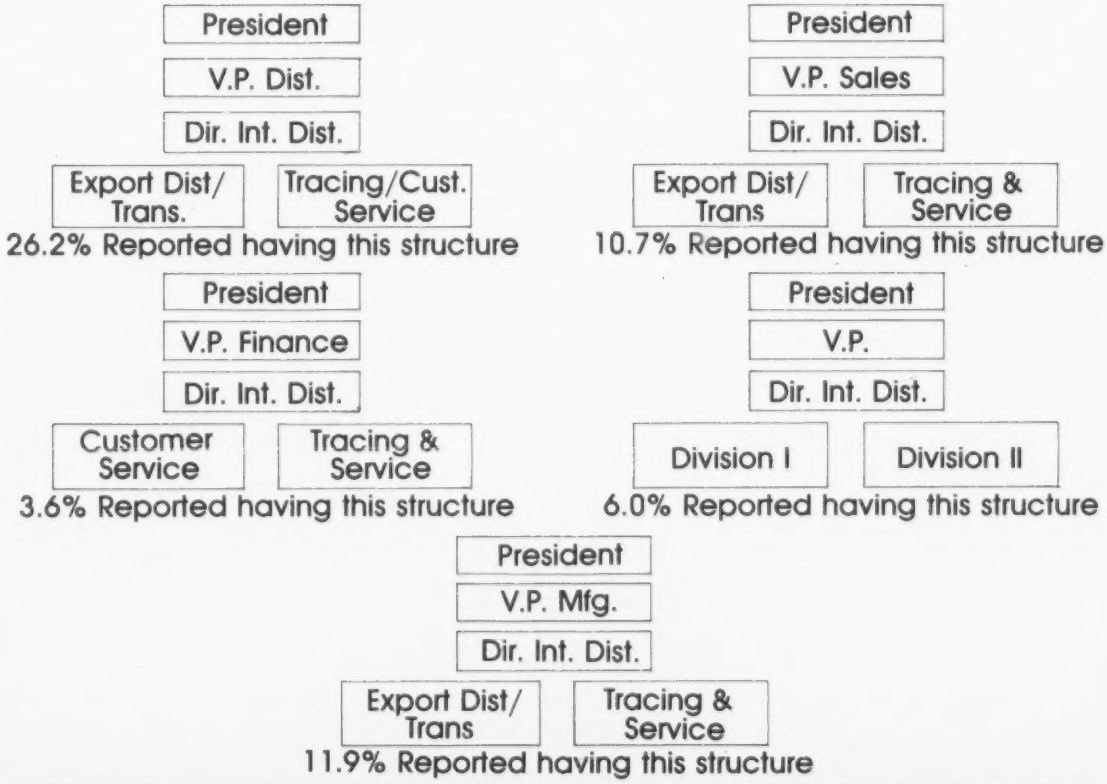
continued on p. 66

How Are Most Exports Paid For?



Methods of payment varied among the surveyed firms, with 57 percent using a letter of credit, 33 percent using open accounts, and 10 percent using sight draft documents. The figure for letters of credit represents an increase of 4 percentage points from the 1983 survey; for open accounts, this year's figure is up 3 percentage points from last year's.

Organization Of International Distribution



Approximately one-third of the responding companies had a director of international distribution. The five organization charts presented here show how this director fits into the corporate structure. The most popular structure has the international distribution director reporting to a vice-president of distribution. The least popular has the director reporting to a financial VP. Other structures were almost evenly divided, and had the director of international distribution reporting to a manufacturing, sales/marketing, or administrative VP.

To Whom Do You Most Often Export?

The general trend in international distribution is one of companies shipping more and more products to an affiliate, rather than directly to the customer. The general consensus among international executives is that it is less risky to ship to an affiliate or third party, because these entities know the specifics of host-country distribution. This third-party trend has increased from 38 percent in 1982 to 40 percent in 1983 and 43 percent in 1984. What it indicates is that while international sales may increase, the responsibilities of international distribution managers do not change. The thinking, in a nutshell, is one of "pass the buck" to a foreign affiliate. This also corroborates the earlier finding that fewer people are being employed in international distribution.

What Terms Of Sale Do You Use Most Often?

The terms of sale offered by a U.S. firm to foreign customers determines the extent of the company's distribution involvement. The terms of sale offered by U.S. firms on exports showed that 45 percent were f.o.b. U.S. point, and 43 percent were on a c&f or c.i.f. basis. Only seven percent were f.a.s. or f.o.b. foreign point. For imports, 48 percent were f.o.b. U.S. point, 34 percent were c&f or c.i.f., and 18 percent were f.a.s. or f.o.b. foreign point.

cations and at final customer sites. Continued development in this area, it is felt, will also begin to eliminate many of the documentation errors that have plagued the industry for so long.

- A greater use of third parties will be called for, especially in Socialist regions where it is typically hard to do business, such as Eastern Europe, South American and Africa.
- Exporters will have to have a greater dependence on government agencies in Washington to facilitate trade through bilateral negotiations, tax incentives, federally supported trade financing, etc.
- There will be a greater use of global sourcing as a competitive weapon, both in the domestic and international markets.

The third and perhaps most important question, asked of distribution executives in the personal interview, was "What changes will occur over the next five years that would significantly affect distribution department personnel's involvement in the international activity?" To this question, the executives' major conclusions were:

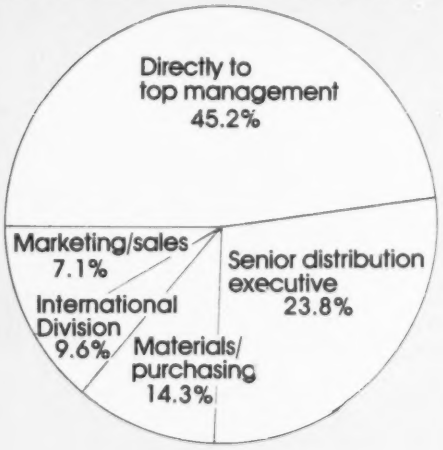
- More people will become involved in the international distribution activity as the level of their companies' involvement in the importing and exporting areas increases.
- More foreign subsidiaries will begin to handle the distribution activities associated with marketing efforts in particular countries.
- More planning will be done in the international area as it becomes more complex.
- There will be more centralization of inventories, and thus personnel, in regional distribution centers serving whole continents.

On the strategic level, the executives concluded there will be:

- more concentration of exports to selected regions, instead of "shotgun" efforts to market products worldwide;
- greater rotation of domestic distribution personnel into foreign operations, to broaden their knowledge of the field;
- an attempt to improve worldwide customer service, in order to improve the image of American exports abroad.

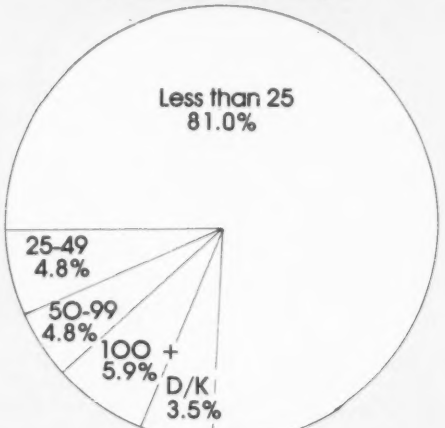
As one executive concluded, "In the past, international distribution has been a problem. Now, we have to look at it as a challenge fraught with opportunities." ☆

To Whom Does The International Distribution Function Report?



Reporting structures vary quite extensively in international distribution. While 45 percent of our survey respondents report directly to top management, this relationship is more on a staff basis at a corporate level. This is down somewhat from the 1983 survey, where 53 percent of the firms said international distribution reported to top management. To whom does the director of international distribution typically report? In twenty-six percent of the firms surveyed, that function reports to a vice president of distribution; in 11.9 percent, to a vice president of manufacturing; in 10 percent, to a vice president of sales; in 6 percent, to a general adminstrative vice president, and in 3 percent, to a vice president of finance.

How Many Employees (professional) Are Directly Involved In The International Distribution Function At Your Company?



The number of employees involved in international distribution is still relatively small when compared with the volumes of goods being moved in international distribution. As shown, less than 25 people are involved in international distribution in more than 80 percent of the firms surveyed. This is up from the 70 percent reported in the 1983 study. The trend is toward leaner departments, with fewer people carrying more and more responsibility. As one international distribution manager stated, "We used to have a manager for export and distribution at our five main plant locations. This has now been consolidated into one location, and I am handling all of it. If that isn't a decrease in staff, I don't know what is."